

ATTACHMENT

C

**CALIFORNIA BOARD OF ACCOUNTANCY**

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Attachment C

**COMMITTEE ON PROFESSIONAL CONDUCT
MINUTES OF THE MEETING****FINAL**

July 20, 2006
Crowne Plaza LAX
5985 West Century Blvd.
Los Angeles, CA 90045

CALL TO ORDER

The meeting of the Committee on Professional Conduct (CPC) was called to order at 9:00 a.m. by David Swartz, Chair. Mr. Swartz introduced and welcomed David Tolkan representing the Society of California Accountants and Charlene Zettel, Director of the Department of Consumer Affairs.

Mr. Swartz then indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full Board are present at a committee meeting, members who are not members of that committee may attend that meeting only as observers. The Board members who are not committee members may not sit at the table with the committee, and may not participate in the meeting by making statements or by asking questions of any committee members.

Present:

David Swartz, Chair
Ronald Blanc
Richard Charney
Donald Driftmier
Clifton Johnson
Robert Petersen
Renata Sos

Staff and Legal Counsel

Mary Crocker, Assistant Executive Officer
Patti Franz, Chief, Licensing Division
Michael Granen, Deputy Attorney General
Gregory Newington, Chief, Enforcement Division
George Ritter, Legal Counsel

for Mr. Blanc's motion. **The CPC then voted on the motion which was unanimously carried.**

III. Proposed Regulatory Language Related to the Board's Audit Documentation Requirements.

Mr. Swartz noted that at its previous meeting, the CPC had considered revisions to the Board's audit documentation regulations to be more consistent with the standards issued by the Public Company Accounting Oversight Board (PCAOB) and the Auditing Standards Board (ASB). He indicated that the CPC and the Board had approved, in concept, several revisions and the CPC now had before it draft regulations implementing these Board actions. He asked Ms. Wong to provide an overview of the draft regulations.

Ms. Wong reported that the memo of July 10, 2006, (**Attachment 3**) provided a summary of the changes to the audit documentation regulations that the CPC and the Board approved in concept in May. She indicated the changes were: 1) to change the start date for the seven-year documentation retention period from the report date to the "date of issuance of the report" – which is also called the "report release date," 2) not to require the documentation of deletions during the 60-day document assembly period, 3) not to permit deletions after the end of the 60-day document assembly period, and 4) to specify a document assembly period in the event the report is not issued.

Ms. Wong then called the CPC's attention to the amendments to regulations proposed to implement these changes. She indicated that the first change, modifying the start date for the documentation retention period, is contained in an amendment to Section 68.3 which was provided in Attachment 1 to the July 10, 2006, memo.

Ms. Wong noted that the second amendment for the CPC to consider is a new subsection (a) of Section 68.4 that provides a definition of the document assembly period. Ms. Wong indicated that draft language was originally provided in Attachment 1 to the July 10, 2006, memo. However, feedback was received indicating there were drafting weaknesses in this proposal. Alternative language for subsection (a) that addressed these drafting weaknesses was provided to the CPC, the Board, and the public in an e-mailed memo (**Attachment 4**). This revised language states the document assembly period is 60 days unless professional standards provide for a shorter period. Ms Wong indicated that staff recommend the revised language. Mr. Swartz expressed support for this approach noting that should the PCAOB's document assembly period change in the future, the Board would not need to revise its regulation.

Ms. Wong noted that the third regulation change for the CPC to consider involved amendments to indicate that deletions to audit documentation were not permitted after the end of the document assembly period. She indicated that the language for this is in subsection (b) of Section 68.4 provided in Attachment 1 to the July 10, 2006, memo. She noted that this language retained the language that had previously been in the definition of changes in audit documentation.

She further indicated that Mr. Granen had suggested that the words "whether in physical or electronic form" be deleted. Mr. Granen added that he believed these were unnecessary and could be confusing. Mr. Driftmier expressed support for deleting the words "whether in physical or electronic form" and agreed with Mr. Granen regarding how this wording could be confusing.

Ms. Wong then noted that the final proposed change was to indicate that additions, with proper documentation, are permitted after the end of the document assembly period. She explained that proposed subsection (c) of Section 68.4 contains this provision and specifies the documentation required. Ms. Wong added that Attachment 1 to the July 10, 2006, memo included language for subsection (c). However, revised language, recommended by staff, was provided by e-mail to the CPC, the Board and the public (**Attachment 5**). She indicated that the revised language was suggested by Mr. Granen to improve the readability of the provision.

After the CPC reviewed the three memos referenced by Ms. Wong, it was moved by Mr. Driftmier and seconded by Mr. Petersen to accept the proposals as recommended by staff with the deletions of the words "whether in physical or electronic form" in Section 68.4(b).

Ms. Sos then commented that she was in support of the motion with regard to the amendments to Section 68.3, and subsections (a) and (c) of Section 68.4. Also, she was pleased to see that the proposed amendment to Section 68.4(b) retained much of the language that was previously in the definition of changes in audit documentation. However, she believed the language in the last sentence of Section 68.4(b) was not consistent with other provisions in the proposal. She suggested deleting "documents added to the file" and substituting "additions to audit documentation" for improved clarity and consistency. **Mr. Driftmier agreed to amend his motion to include the revision suggested by Ms. Sos. Mr. Petersen, seconder of the motion, agreed. The motion was unanimously carried.**

IV. Proposed Regulatory Language Related to Webcast Continuing Education Courses.

Ms. Franz reported that, at its November 2005 meeting, the Board adopted a CPC recommendation to accept as qualifying continuing education (CE) courses taken over the Internet via Webcasts which are consistent with Board's requirements for live presentation CE. She noted that a notice to licensees had been posted on the Board's Web site indicating that they may complete this type of continuing education course. Also, proposed amendments to Sections 88, 88.1, 88.2, and 89 of the Board's regulations to implement the recommendation have been included with the agenda materials for the meeting (**Attachment 6**). She indicated that these regulations include requirements to ensure that licensees who participate in Webcast courses are actually present during the entire course and interacting with the course instructor. These regulations also provide for lead time to allow providers to come into compliance with the requirements and licensees to receive information regarding the Webcast option. Ms. Franz concluded her comments by indicating that these regulation changes, if

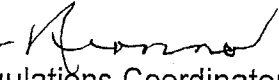
Memorandum

CPC Agenda Item III
July 20, 2006

Board Agenda Item IX.C.4
July 21, 2006

To : CPC Members
Board Members

Date: July 10, 2006
Telephone : (916) 561-1788
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E-mail: awong@cba.ca.gov

From : Aronna Wong - 
Legislation/Regulations Coordinator

Subject : Proposed Regulatory Language Related to the Board's Audit Documentation Requirements

At its May 19, 2006, meeting, the Board approved in concept the following changes to its audit documentation regulations recommended by the CPC:

- The start date for the seven-year documentation retention period is to be changed from the "report date" to the "date of issuance of the report" – which is also called the "report release date."
- The regulations are to be changed to not require the documentation of deletions to audit documentation that occur **during** the 60-day document assembly period.
- The regulations are to be changed so that deletions to audit documentation are not permitted **after the end** of the 60-day document assembly period.
- The regulations are to be changed to indicate that if a report is not issued in connection with an audit engagement, the document assembly period ends 60 days after the date that the fieldwork was completed. If the auditor does not complete the engagement, the documentation assembly period ends 60 days from the date the engagement ceased.

Attached for your consideration and action are draft amendments to Sections 68.3 and 68.4 implementing these Board actions (**Attachment 1**). Also attached for reference is the text of Business and Professions Code Sections 5097 and 5098, the statutes which these regulations implement (**Attachment 2**). In addition, as background information, excerpts from the minutes of the May 2006, CPC and Board meetings are provided (**Attachments 3 and 4**).

The text of Section 68.4 in Attachment 1 differs from the Board's action in one respect: at the suggestion of Enforcement Division staff, the draft regulations recognize the difference in the length of the document assembly period for audits of publicly traded entities (45 days based on the PCAOB standard) versus the length of the document assembly period for audits of non-publicly traded entities (60 days based on the Auditing Standards Board standard). Concern was expressed that failing to recognize this difference could make Section 68.4 confusing to licensees.

It is anticipated that draft amendments approved by the Board at this meeting will be scheduled for a public hearing at the December 1, 2006, Board meeting.

Attachments

AMENDMENTS TO SECTIONS 68.3 AND 68.4 RELATED TO AUDIT DOCUMENTATION

68.3 Retention Period for Audit Documentation.

(a) The retention period mandated by Business and Professions Code Section 5097 shall be measured from the ~~report date~~ date of issuance of the report (report release date).

(b) If audit documentation is required to be kept for longer than seven years because of a pending Board investigation or disciplinary action, audit documentation shall not be destroyed until the licensee has been notified in writing by the Board of the closure of a Board investigation or disciplinary proceeding.

(c) Any documents required to be maintained by Business and Professions Code Section 5097 or these regulations shall be maintained in accessible form.

(d) Audit documentation shall be retained whether or not the documentation supports the auditor's final conclusions. All audit documentation regarding any significant matter related to the audit shall be retained whether or not the documentation contains information or data inconsistent with the auditor's final conclusions. Significance of a matter shall be determined based on an objective analysis of the facts and circumstances. Audit documentation to be retained shall also include all documentation of consultations on, or resolutions of, any differences of opinion regarding the exercise of professional judgment.

NOTE: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

68.4. The Document Assembly Period and Subsequent Changes in Audit Documentation After Issuance of the Report.

(a) Audit documentation that is not completed prior to the date of issuance of the report shall be completed during the document assembly period specified in this subsection.

(1) For audits of publicly traded companies, the document assembly period is the 45-day period following the date of issuance of the report. If the report is not issued in connection with such an engagement, the document assembly period ends 45 days after the date that the fieldwork was completed. If the auditor was unable to complete such an engagement, then the document assembly period ends 45 days from the date the engagement ceased.

(2) For audits of an entity other than publicly traded companies, the document assembly period is the 60-day period following the date of issuance of the report. If the report is not issued in connection with such an engagement, the document assembly period ends 60 days after the date that the fieldwork was completed. If the auditor was unable to complete such an engagement, then the document assembly period ends 60 days from the date the engagement ceased.

(b) After the end of the document assembly period, ~~(a) Changes in audit documentation include any addition, removal, deletion, substitution, or editing of audit documentation, including, but not limited to, physical or electronic additions to any audit documentation file or preexisting audit documentation~~ **whether in physical or electronic form, is prohibited** ~~occurring after the date of issuance of the audit report which is supported in whole or in part by the audit documentation.~~ **Documents added to the file shall comply with the requirements in subsection (c).**

~~(b) Except as provided in subsection (c), in~~ **In** ~~addition to any other documentation required by professional standards, any changes in audit documentation~~ **added after the end of the document assembly period** ~~shall provide the identity of the person(s) making the change~~ **who prepared the additional documentation** ~~and identity of any person(s) approving the change~~ **addition**, ~~the date of the~~ **change addition**, ~~and the reason for~~ **the change adding it** ~~if the reason is other than the assembling of pre-existing documents.~~ ~~The documentation which is changed~~ **added** ~~shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the~~ **change addition**.

~~(c) During a 60-day period after the date of issuance of the audit report, documents may be added to the file for the assemblage and documentation of work previously performed.~~ **(d)** ~~Nothing in this subsection~~ **section** ~~authorizes the deferral of audit procedures required to be performed prior to the date of issuance of the report.~~

NOTE: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

BUSINESS AND PROFESSIONS CODE

SECTIONS 5097-5098

5097. (a) Audit documentation shall be a licensee's records of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in an audit engagement. Audit documentation shall include, but is not limited to, programs, analyses, memoranda, letters of confirmation and representation, copies or abstracts of company documents, and schedules or commentaries prepared or obtained by the licensee.

(b) Audit documentation shall contain sufficient documentation to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, extent, and results of the auditing or other procedures performed, evidence obtained, and conclusions reached, and to determine the identity of the persons who performed and reviewed the work.

(c) Failure of the audit documentation to document the procedures applied, tests performed, evidence obtained, and relevant conclusions reached in an engagement shall raise a presumption that the procedures were not applied, tests were not performed, information was not obtained, and relevant conclusions were not reached. This presumption shall be a rebuttable presumption affecting the burden of proof relative to those portions of the audit that are not documented as required in subdivision (b). The burden may be met by a preponderance of the evidence.

(d) Audit documentation shall be maintained by a licensee for the longer of the following:

(1) The minimum period of retention provided in subdivision (e).

(2) A period sufficient to satisfy professional standards and to comply with applicable laws and regulations.

(e) Audit documentation shall be maintained for a minimum of seven years which shall be extended during the pendency of any board investigation, disciplinary action, or legal action involving the licensee or the licensee's firm. The board may adopt regulations to establish a different retention period for specific categories of audit documentation where the board finds that the nature of the documentation warrants it.

(f) Licensees shall maintain a written documentation retention and destruction policy that shall set forth the licensee's practices and procedures complying with this article.

5098. The board may adopt regulations to implement, interpret, and make specific provisions relating to the following:

(a) Requirements for licensees maintaining an audit documentation retention policy and procedures for review and approval of audit documentation destruction.

(b) Procedures for the identification, dating, and retention of audit documentation.



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Attachment 3



CPC Agenda Item I
July 20, 2006

Board Agenda Item IX.C.1
July 21, 2006

COMMITTEE ON PROFESSIONAL CONDUCT
MINUTES OF THE MEETING
May 18, 2006

DRAFT

Hilton San Jose
300 Almaden Blvd.
San Jose, CA 95110

I. CALL TO ORDER

The meeting of the Committee on Professional Conduct (CPC) was called to order at 9:05 a.m. by David Swartz, Chair. Mr. Swartz indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full Board are present at a committee meeting, members who are not members of that committee may attend that meeting only as observers. The Board members who are not committee members may not sit at the table with the committee, and may not participate in the meeting by making statements or by asking questions of any committee members. Mr. Swartz then welcomed Marcus McDaniel, a new public member of the Board. Mr. Swartz also expressed appreciation to Gail Hillebrand, previous CPC chair, for her service to the CPC and to the Board.

Present:

David Swartz, Chair
Ronald Blanc
Richard Charney
Donald Driftmier
Robert Petersen
Renata Sos

Staff and Legal Counsel

Mary Crocker, Assistant Executive Officer
Michael Granen, Deputy Attorney General
Gregory Newington, Chief, Enforcement Program
George Ritter, Legal Counsel
Carol Sigmann, Executive Officer
Aronna Wong, Legislation/Regulations Coordinator

Other Participants

Roger Bulosan, Qualifications Committee Chair
Michael Duffey, Ernst and Young LLP
Julie D'Angelo Fellmeth, Center for Public Interest Law
Bobbie Jarvis, California Society of Accounting and Tax Professionals
Art Kroeger, Society of California Accountants
David Link, Consultant, Senator Figueroa
Wendy Perez, Ernst and Young LLP
Richard Robinson, Richard Robinson & Associates
Hal Schultz, California Society of Certified Public Accountants
Jeannie Tindel, California Society of Certified Public Accountants
David B. Tolkan, Society of California Accountants

Board Members Observing

Ruben Davila
Sally Flowers
Clifton Johnson
Tom Iino
Bill MacAloney
Marcus McDaniel

II. Consideration of CalCPA's Request for Amendments to the Board's Regulations Related to Audit Documentation.

Mr. Swartz indicated that the CPC had before it an audit documentation proposal developed by the California Society of Certified Public Accountants (CalCPA). He explained that the CPC had begun consideration of the proposal at its November 2005 meeting and decided to continue the discussion at a future meeting. He thanked staff for providing the information in the packet (Attachments 1 and 2), and asked Ms. Wong to provide an overview of the proposal.

Ms. Wong indicated the proposal was based on the audit documentation standard issued by the Public Company Accounting Oversight Board (PCAOB). She explained the proposal would change the start date for the seven-year audit documentation retention period from the "report date" which is generally the date the fieldwork for the audit is completed to the "date of issuance of the report" which is also called the "report release date." The proposal also would change the length of the grace period for the assembly of audit documentation – sometimes referred to as the "document assembly period" or the "documentation completion period" – from 45 days to 60 days. In addition, unlike the Board's current regulations, during that 45-day period the proposal would permit documents to be deleted from the file without any documentation of the deletion. However, at the end of the 45-day period, no deletions of audit documentation would be permitted. Ms. Wong added that current regulations permit deletions after the document assembly period, provided the deletion is thoroughly documented.

Ms. Wong then summarized some of the discussion that occurred at the November 2005 CPC meeting. She indicated that at that meeting CalCPA had expressed concern

that, under the Board's current regulations, a deleted item would need to be retained as a reference to appropriately document the "extent of the change." She added that, upon hearing this concern, some CPC members had suggested it might be possible to address it by making minor changes to current regulations. Ms. Wong further indicated that, at the November 2005 CPC meeting, Ms. Fellmeth representing the Center for Public Interest Law (CPIL) had expressed concern that it was premature to modify the Board's audit documentation regulations.

Ms. Wong noted that at the conclusion of the November 2005 meeting, the CPC requested staff provide a side-by-side comparison showing the Board's regulations, CalCPA's proposal, the PCAOB standard, and the new standard developed by the Auditing Standards Board (ASB). Ms. Wong indicated that Enforcement Division staff had prepared the side-by-side comparison which is included in the materials for the meeting (see Attachment 1). She added that Mr. Newington was available to respond to any questions regarding the side-by-side comparison.

Ms. Wong concluded the overview by noting that additional background material provided in the packet (Attachment 2) included excerpts from the minutes of the November 17, 2005, CPC meeting, a letter from Ms. Fellmeth communicating CPIL's concerns, relevant statutes and regulations, and the PCAOB and ASB standards.

During the discussion, Ms. Sos summarized CalCPA's proposal by indicating that it proposed changes to the start date of the document retention period, changes to the length of the document assembly period, changes to the cut-off date, and changes related to what happens during the document assembly period. She also noted that CalCPA's proposal provided for a document assembly period when the report was not issued or the audit was not completed. She suggested that the Board may want to include such a provision in its regulations.

Mr. Schultz indicated that audit documentation must include documentation of significant matters related to the audit regardless of whether the documentation contains information inconsistent with the auditor's final conclusions. He suggested that, because of this requirement, the deletion of other materials is a housekeeping matter. He added that the deletion of unnecessary documents is permitted before the report release date, and he believed it was reasonable to be able to delete these same documents after the report release date during the documentation completion period. He explained that the report release date is often the busiest day of the audit engagement, and to focus on document deletion at that time could have a negative impact on audit quality.

Mr. Schultz added that when the Board's task force developed its audit documentation standard, it looked at the ASB standard that was then in place and found it lacking. To address this concern, California developed detailed standards. Since that time, the PCAOB has developed a standard and the ASB's standard has been revised. He added that the PCAOB and ASB standards are similar except for the length of the documentation completion period.

Mr. Schultz concluded his remarks by noting that the current Uniform Accountancy Act Rule on audit documentation states "Licensees shall comply with all professional standards applicable to particular engagements, including, but not limited to standards adopted by recognized standards setting bodies such as the Public Company Accounting Oversight Board (PCAOB), the Comptroller General of the United States, and the Auditing Standards Board." He suggested that the Board consider adopting a similar rule.

During the discussion that followed, Mr. Blanc asked Mr. Schultz if a major part of CalCPA's concern would be addressed if the Board's regulations indicated that it was not necessary to retain a deleted document. Mr. Schultz responded affirmatively. Mr. Blanc indicated he would support making such a change for clarification. Mr. Schultz added that he also believed there would be a benefit in conforming with national standards. Mr. Swartz noted that the proposed change would make the Board's regulations more consistent with the PCAOB standard and indicated that he viewed the proposed change as more administrative than substantive.

Ms. D'Aneglo Fellmeth expressed concern regarding CalCPA's proposal. She stated that before 2002, there were no audit documentation standards in statute or in regulation. AB 2873, drafted by this Board, established audit documentation standards including the General Accounting Office (GAO) standard and the rebuttable presumption. She noted that after enactment of that legislation the Board spent considerable time developing implementing regulations. She further noted that the regulations are barely two years old, and she believed it was too soon to make changes. She also stated that CPIL opposed deleting the definition of changes to audit documentation in Section 68.4. She added that deleting the definition of changes to audit documentation would impact the implementation of the rebuttable presumption. She concluded her comments by noting that it is not necessary to conform with other standards as long as there are no conflicts.

In response to an inquiry from Ms. Sos, Ms. D'Angelo Fellmeth indicated that she did not oppose starting the seven-year document retention period on the date of issuance of the report, shortening the document assembly period from 60 to 45 days, and no longer permitting deletions after the end of the document assembly period. She further indicated that she had no objection to the addition of language to clarify that the Board's documentation requirements do not require the retention of deleted documents. She added that, in this situation, the auditor takes some risk in that the auditor may not have the documentation needed to rebut the presumption that the work was not performed.

It was then moved by Ms. Sos and seconded by Mr. Blanc to recommend that the Board amend its audit documentation regulations as follows: 1) change the start date for the retention of audit documentation to the date the report is issued or release, 2) shorten the length of the document assembly period from 60 to 45 days, 3) no longer permit deletions of audit documentation after the end of the

document assembly period, and 4) clarify that the Board's documentation requirements do not require the retention of deleted documents.

Mr. Schultz noted that while CalCPA's proposal recommends a 45-day documentation completion period, the ASB standard provides for a 60-day period. He suggested that retaining the 60-day period would benefit practitioners who audit nonpublic companies. Mr. Kroeger, on behalf of the Society of California Accountants (SCA), agreed and indicated that SCA members do not audit public companies and would prefer that the 60-day time period be retained. **Ms. Sos indicated she had no objection to retaining the 60-day document assembly period and revised her motion to remove the portion of it proposing a 45-day time period. Mr. Blanc, seconder of the motion, concurred with this revision. The revised motion was unanimously carried.**

Mr. Swartz then noted that the documentation of deletions remained an issue for discussion. Mr. Blanc indicated that he believed that the date the report is released is critical and that there should be a record of any changes made after that date. **After discussion, it was moved by Mr. Driftmier and seconded by Mr. Petersen to recommend that the Board revise its regulations to not require documentation of deletions made during the 60-day document assembly period.** During the discussion of the motion, Ms. D'Angelo Fellmeth indicated that if there is an audit failure, a paper trail would be valuable; and, after the audit report is released, the identity of the person deleting audit documentation should be recorded. Dr. Charney indicated he did not believe it was necessary to record the deletion of documents unrelated to the audit report. He expressed the view that the proposed change was a refinement of the Board's current regulations. **The CPC then voted on Mr. Driftmier's motion which carried with four "aye" votes and two "no" votes.**

Ms. Sos inquired if the Board's regulations should be amended to address situations in which no report is issued on an audit engagement. Mr. Granen indicated that such a provision would be of value since the Board has had enforcement cases in which an audit report was not issued. Mr. Newington concurred and indicated that it would be appropriate to add such a provision. **It was then moved by Ms. Sos, seconded by Mr. Driftmier, and unanimously carried to recommend that the Board adopt CalCPA's proposal to provide for a document assembly period for situations in which the audit report is not issued, substituting 60 days for the 45 days in the proposal.**

III. Discussion of Tax Services.

Mr. Swartz indicated that letters had been sent to interested stakeholders requesting information regarding tax services (see Attachment 3). He suggested that the CPC consider deferring discussion of this agenda item until a future meeting when more complete information from stakeholders becomes available. **It was then moved by Ms. Sos and seconded by Mr. Driftmier to defer a full discussion of tax services until a future meeting.** During the discussion of the motion, Dr. Charney suggested that there may be members of the public who came specifically to discuss this topic. Ms.

Attachment 1

Memorandum

CPC Agenda Item II
May 18, 2006

Board Agenda Item IX.C.2
May 19, 2006

To : CPC Members
Board Members

Date: May 2, 2006
Telephone : (916) 561-1788
Facsimile : (916) 263-3674
E-mail: awong@cba.ca.gov

From : Aronna Wong, 
Legislation/Regulations Coordinator

Subject : CalCPA's Request for Amendments to the Board's Regulations Related to
Audit Documentation

At its meeting of November 17, 2005, the CPC considered a request from the California Society of Certified Public Accountants (CalCPA) to amend the Board's regulations related to audit documentation to achieve greater consistency with the Public Company Accounting Oversight Board's (PCAOB's) audit documentation standard. It was the CPC's recommendation to the Board that the discussion of this proposal continue at a future meeting. This continued discussion is scheduled for the May 18-19, 2006, meetings. For your consideration and action, CalCPA's proposal is provided as Attachment A..

When CalCPA's proposal was discussed in November 2005, the following issues were identified:

- CalCPA expressed concern that, under the Board's current regulations, to appropriately document the "extent of the change" a deleted item would need to be retained as a reference. It was suggested this is burdensome and could negatively impact audit quality. Under CalCPA's proposal, during the 45-day period following the release of the audit report, items that would otherwise not need to be retained could be deleted without documentation. After that 45-day period, no deletions would be permitted.
- The Center for Public Interest Law (CPIL) expressed concern that it was premature to modify the Board's current regulations. CPIL also indicated it was critical to retain the definition of "changes in audit documentation" which would be deleted if CalCPA's proposed language was adopted.
- CPC members indicated that the Board needed to be cautious about making changes to the current regulations and that the standard being developed by the ASB should be considered as well as the PCAOB standard. It was also suggested that CalCPA's concern regarding deleted documents might be addressed with relatively minor changes to the text of the regulations.

At the conclusion of the November 17, 2005, discussion, it was the direction of the CPC that, when this matter was discussed again, staff provide a side-by-side comparison showing of the Board's regulations, CalCPA's proposal, the PCAOB standard – Auditing Standard No. 3 (AS 3), and the standard developed by the AICPA's Auditing Standards Board – now Statement on Auditing Standards No. 103 (SAS 103). This item is provided as Attachment B.

Enforcement Division staff have offered the following comments related to the attached comparison:

- **Revisions to Section 68.3 related to the start date for the retention of audit documentation:**

The period for the retention of audit documentation under Section 68.3 commences as of the date of the audit report. In the majority of audits, the report date is the date of completion of the audit fieldwork.

Under CalCPA's proposal, AS 3 and SAS 103, the audit documentation retention period commences on the date of issuance of the audit report. The date of issuance, which is also known as the "report release date," is the date the auditor delivers the audit report to the client. Under most circumstances, the audit report issuance date is generally less than a month after the audit report date. The date of issuance, as proposed by CalCPA, appears reasonable as the date of issuance is the date the audit report can be used by the client and the auditor would become responsible for the opinion rendered.

- **Revisions to Section 68.4 related to the grace period and the types of changes allowed in audit documentation:**

SAS 103 and AS 3 contain more detail and guidance on the content of audit documentation than under the previous standard, SAS 96 (AICPA AU 339). The new standards are also more stringent with regard to deletion of audit documentation after the documentation completion date than is current Section 68.4. Subsequent to the documentation completion date, Section 68.4 allows both the addition and deletion of audit documentation as long as the changes are fully documented. AS 3 and SAS 103 do not allow the deletion, only the addition of audit documentation if clearly documented. CalCPA's proposal is consistent with AS 3 and SAS 103 in this respect.

With regard to what is allowable during the window of time between the start of the retention period and the documentation completion date, AS 3, which serves as the model for CalCPA's proposal, requires "a complete and final set of audit documentation should be assembled for retention as of a date no more than 45 days after the report release date (documentation completion date)." It is unclear what types of changes are permissible during the window period and/or what documentation is necessary related to any changes.

SAS 103 provides for a 60 day window during which the auditor may "perform routine file-assembling procedures such as deleting or discarding superceded documentation and sorting, collating, and cross-referencing final working papers." A clear definition of deleting or discarding superceded documentation is not contained in the standard and no examples are provided.

Additional background information including excerpts from the minutes of the November 2005 CPC meeting and the texts of AS 3 and SAS 103 is being provided under a separate cover. If the Board decides to amend its audit documentation regulations, a regulation hearing can be scheduled for the fall of 2006.